

INTERNATIONAL OPERATIONS (3 PAGES) - INTERNATIONAL PAGE 9

The schedule is intended to capture information on lending, letter of credit and acceptance financing between the institution and obligors and/or guarantors domiciled outside the United States, its territories, and possessions. The inclusion of obligations guaranteed by foreign domiciled individuals or entities in this definition is based on the concept that ultimate liability for repayment rests with the guarantor. Therefore, the basic objective is to designate those transactions where repayment channels will cross international boundaries. This approach is consistent with the methodology used in the Country Exposure Report (FDIC 6502/03) to reallocate claims to the country of the individual or entity ultimately liable for repayment.

For the purposes of this schedule, guaranteed instruments are those for which a third party formally and legally obligates itself to repay the institution's claim on the direct obligor if the latter fails to do so. Documents such as comfort letters or letters of awareness or intent are not considered guarantees for the purposes of this schedule. The term "guaranteed" covers collateralized instruments if the collateral meets both these requirements:

- (a) The collateral is tangible, liquid, readily marketable (that is, cash, gold, certificates of deposit, or readily marketable shares of stocks or bonds)
- (b) The collateral is both held and realized outside the United States, its territories, and possessions.

Using the foregoing guidelines, include in the schedule obligations of residents or entities domiciled in the United States bearing a guarantee from a resident or entity in a foreign country. Similarly, exclude from the schedule direct obligations of foreign residents or entities with guarantees from domestically domiciled residents or entities.

DISTRIBUTION OF LOANS

Base the categorization of loans in this schedule on the nature of the direct obligor on the indebtedness.

Mortgage loans include liens or deeds of trust on real property, aircraft, or ships. Shipping loans included in this category will be secured by first or second preferred-ship mortgages. Exclude loans collateralized solely by bareboat, time, or consecutive charter which are more properly shown in the loans to commercial, industrial, and agricultural interests caption.

Include in the caption, "Other Loans," credits not properly categorized in the five preceding captions made to obligors with similar characteristics and represent a material percentage of total international loans (approximately 10% of international loans is a reasonable criteria).

The caption, "Syndication and Consortium Financing," includes the institution's investment in syndicated credits. These loans differ from the customary participation loan as a number of institutions participate at the outset and are known to the borrower. As such, the loan must be structured to meet both the requirements of the participating institutions and the needs of the borrowing entity. The function of packaging the credit to satisfy the needs of parties to the transaction is the responsibility of the syndicate leader.

FOREIGN EXCHANGE ACTIVITIES - INTERNATIONAL PAGE 9

The caption, "Other (Describe)," is intended to provide a location for the enumeration of special types of international lending or financing activity deemed worthy of separate enumeration. For example, a separate enumeration of the aggregate volume of syndicated loans originated by the institution as syndicate leader or loans within certain geographic areas may be warranted.

Use the footnote, "Does not include loans to U.S. subsidiaries of foreign corporations," to show the aggregate of loans to such borrowers which have not been shown in the categories above in the Distribution schedule.

This schedule may be used in conjunction with the Foreign Exchange Questionnaire. Any negative responses may indicate a need for correction and comment at the bottom of the schedule or expanded treatment elsewhere in the Report. Comments may be brought forward to the Administration, Supervision, and Control page, Item #12, and/or the Management/Administration page. Forward material concerns to the Examination Conclusions and Comments page.

FOREIGN EXCHANGE QUESTIONNAIRE (5 PAGES)

INTERNATIONAL PAGE 9

Complete and include these schedules in the Report of Examination only if the institutions have material foreign exchange activity. If the foreign currency holdings are nominal, inclusion of these Report pages is not required. Nevertheless, these pages may be useful as a workpaper for determining the extent of the institution's position in various currencies and unrealized profit and/or loss. If meaningful, individual schedules such as the position statement or revaluation and income/loss analysis may be included in the Report of Examination without inserting the policies and procedures questionnaire.

POSITION ANALYSIS

If an institution has assets or liabilities denominated in a foreign currency, or the institution has commitments to purchase or sell foreign exchange with a future delivery date, a net position for each foreign currency must be calculated. This function facilitates an analysis of exposure to fluctuations in exchange rates and aids in determining unrealized profits and/or losses accruing to the institution on the date of examination. Further, the position analysis enables the examiner to ascertain the institution's practice of adjusting U. S. dollar equivalents of foreign currency accounts at periodic intervals.

To prepare the position on each foreign currency, make a trial balance of each asset and liability account denominated in a foreign currency. Asset accounts (long position) include, but are not limited to, foreign currency on hand, due from bank accounts (nostro), demand and time loans, investments, accrued interest receivable, and commitments to purchase exchange on a spot or future basis. Liabilities (short position) include due to accounts (vostro) with other institutions (including nostro overdrafts), demand and time deposits cash collateral, accrued interest payable, accounts payable, and commitments to sell exchange on a spot or future basis. These accounts or subsidiary records will normally contain both the amount of foreign currency and an equivalent amount in U.S. dollars. The examiner's trial balance of foreign currency should prove to the institution's position sheet, and dollar equivalents should correspond to the general ledger. Certain transactions, such as the previous day's spot or future exchange transactions may not have been recorded on the institution's books. Obtain these so called "holdover" items from the foreign exchange trader, and include them in the calculation of the currency position.

MAJOR CURRENCY POSITION

As the Report page indicates, this schedule is reserved primarily for the currency posing the greatest exposure to the institution's total capital and reserves. If the institution maintains substantial positions in several currencies, the schedule should be completed separately for each currency. Alternatively, if the institution does not maintain a large position in any one currency, it is unnecessary to complete this segment of the Report page.

Derive the entries for foreign currency and dollar equivalents for each asset and liability category from the institution's records. **DO NOT REVALUE THESE ACCOUNTS AT CURRENT EXCHANGE RATES.** Deduct the lesser of long/short position from the larger figure to arrive at the net position in foreign currency and dollar equivalent. The net position - dollar equivalent should be related to capital and reserves.

FOREIGN EXCHANGE QUESTIONNAIRE (5 PAGES)

INTERNATIONAL PAGE 9 (continued)

OTHER CURRENCIES

For each currency, aggregate the assets and purchase commitments (long position) and liabilities and sale commitments (short position), and deduct the smaller figure to arrive at the net position for each currency. The net dollar equivalent should be related to capital and reserves.

Note the net position of the Canadian dollar in the schedule in the Bank of Anytown. If the foreign currency total is net long while the U.S. dollar equivalent is net short, a "split position" exists. This so-called "split position" usually results from a heavy volume of activity flowing through the institution's nostro accounts which will subsequently require adjustment to restore balance to the relationship between the foreign currency and U.S. dollar equivalent.

In calculating the aggregate position (U.S.) for all currencies, add all U.S. equivalent figures irrespective of sign (that is, short positions are added to long positions as a positive number).

QUESTIONS 1 (A & B)

These questions help determine whether the institution's net position appears unwarranted, excessive, or speculative. It is difficult to enumerate a benchmark which would indicate an ill-advised position; however, the following criteria may be used in evaluating the institution's position:

1. Competency of the trading and executive officers
2. Purpose of the position
3. The volatility of the individual currencies
4. Volume of business in the country
5. Size of the institution

Negative responses to these questions suggest the need for additional commentary elsewhere in the Report.

MATURITY DISTRIBUTION (GAP) ANALYSIS

Although an institution has no net open position in a currency (that is, assets and purchases equal liabilities and sales), it may nevertheless be exposed to exchange risk by virtue of unmatched maturing obligations creating periods of uneven foreign currency inflows and outflows. To illustrate, an institution may have a preponderance of maturing foreign currency assets or maturing contracts to purchase foreign currency, vis-a-vis maturing liabilities or obligations, to sell foreign exchange with a particular time interval. As such, the institution will be in a net long position (an excess of foreign currency cash) during the time period, and a decision must be made whether to hold the currency in the due from foreign bank account (nostro account), invest the funds short-term, or to sell the exchange either spot or forward for delivery at the time the gap begins and repurchase either spot or forward for delivery when the gap ends. This situation is referred to as positive gap, which exposes the institution to possible loss of income from holding idle funds where no investment or sale has been arranged or exchange losses if the currency depreciates. Conversely, the institution may be in a negative gap position where maturing liabilities or contracts to sell exchange exceed maturing assets or contracts-to-purchase exchange during a particular time period. This situation has liquidity implications in that the institution must either borrow the currency short term or be in a position to purchase (spot or forward) for delivery at the time the gap begins, and perhaps sell (spot or forward) for delivery at the time the gap ends.

FOREIGN EXCHANGE QUESTIONNAIRE (5 PAGES)

INTERNATIONAL PAGE 9 (continued)

MATURITY DISTRIBUTION (GAP ANALYSIS) (continued)

Institutions should have firm policies on the maximum gap exposure permitted in certain currencies. The decision to close a gap when it is created, or to let it remain open for a time, will largely depend on money market interest rates as well as the difference between applicable spot and forward exchange rates (commonly known as the swap rate) or the deviations between two forward exchange rates. Potential movement in the swap rate (for the most part determined by interest rate differentials between the two countries) is the customary measure of profit potential or loss exposure during the period within which the gap exists.

In using this schedule, it is mandatory to complete a maturity distribution only for major currencies outlined in the Major Currency Position segment of this questionnaire. At the discretion of the examiner, currency positions enumerated in the Other Currencies portion of the Position Analysis form may be scheduled, if material. Show each currency on a separate form. Question #2 at the bottom of the form applies to all currencies so listed.

In arranging the maturity distribution, it is recommended that at least the first two weeks of activity subsequent to the examination start date be detailed on a daily basis. (In active departments, a daily enumeration for the first month following the examination start date may be appropriate). Thereafter, semi-monthly or monthly intervals may be used depending on the institution's method of pricing forward commitments and the volume of activity. Longer range maturities may be grouped by years.

The preparation of this schedule requires the inclusion of all ledger accounts comprising the currency position. Show ledger accounts not bearing a maturity date in the first day's maturities. Show spot contracts as of the date settlement is expected to occur. The total of assets and purchases (long), liabilities and sales (short), and the net amount of these two columns should correspond to the foreign currency amounts shown in the position sheet. Compare the net gap for each period to limits imposed by institution management. Further, review the cumulative gap position (the addition of gaps for each time interval) for conformance to policy and the incidence of excessive periods of positive or negative gap. Such events may require comment if potential exposure appears ill-advised from the viewpoint of possible losses and/or liquidity concerns.

As to the final three columns at the right hand side of the form, it will normally be unnecessary to complete a profit and loss revaluation on this form. However, if a position results in a material profit or loss, the examiner may wish to complete this portion of the report form. Refer to the example given in the Revaluation and Income/Loss Analysis schedule discussed below. Price future contracts at the given premium or discount rate. Price spot contracts and ledger accounts at the spot. When one or more rates are used to price a position at a point in time, type "various" in the Spot Rate column. All swap contracts should be removed before valuing the position since the profit/loss is fixed at the time of the transaction and reflected in the return on the asset for which the swap was effected. In any event, the schedule can be used as a workpaper to calculate the future profit/loss adjustment in the revaluation schedule.

FOREIGN EXCHANGE QUESTIONNAIRE (5 PAGES)

INTERNATIONAL PAGE 9 (continued)

REVALUATION AND INCOME/LOSS ANALYSIS

The purpose of this schedule is to determine as of the examination as of date the unrealized profit or loss for the institution in connection with positions undertaken in foreign currency. The computation is based on the assumption that the entire position will be liquidated (that is, all long foreign currency positions will be sold and all short positions will be covered).

The primary input to this schedule is the position analysis schedule on this questionnaire. List each currency under the column "Monetary Unit." Insert in the "Book Value" column the institution's net position in the foreign currency amount and U.S. dollar equivalent less any swap contracts included in the position. (Refer to the following paragraph for an explanation of these transactions). Obtain the spot exchange rate from the Wall Street Journal or similar publications containing foreign exchange rates. Express the exchange rates in terms of the U.S. dollar cost per unit of foreign currency (that is, one Deutsche mark sells for \$.4938) with the values carried to four decimal places or four digit level of significance (one Japanese yen equals \$.004560). Multiply the net amount of foreign currency by the spot rate to arrive at the current market value of the position. Apply the following rules when determining the spot rate profit or loss on each position:

1. Long foreign currency position combined with long U.S. dollar equivalent. Profit is excess of market value over book value; loss is the excess of book over market.
2. Long foreign currency position combined with short () U.S. dollar equivalent. Profit is the current market value plus the short U.S. dollar book value.
3. Short foreign currency position combined with short () U.S. dollar equivalent. Profit is the excess of book value over current market value; loss is the excess of market value over book value.
4. Short foreign currency position combined with long U.S. dollar equivalent. Loss is the current market value plus the long U.S. dollar book value.

Rules #2 and #4 refer to split positions previously mentioned in the instructions for calculating the net open position. Note in rule #2, the position can only result in profit, while in rule #4 the only possibility is a loss.

A financial swap is a combination of a spot purchase or sale of a foreign currency against a forward sale or purchase of the currency. By affecting the arrangement the institution effectively "locks in" the potential gain or loss from entering into a transaction involving the temporary movement of funds into another currency and back again. For example, the institution has an investment opportunity to lend 1,000,000 pounds sterling for three months. The institution will purchase necessary exchange spot for \$1.8660 per pound sterling (\$1,866,000) to make the loan. Simultaneously, the institution will enter into a forward exchange contract to sell 1,000,000 pounds sterling at the anticipated maturity date for \$1.8690 per pound sterling (\$1,869,000). Customarily, the institution will sell forward the expected interest income as well. Accordingly, the institution has realized a \$3,000 profit on the transaction at the inception of the loan. Customarily, the profit (or alternatively cost) is applied to the rate of interest on the loan to determine the true yield on the investment. The profit (or loss) is accrued to income and expenses monthly. In these circumstances it is inappropriate to allocate the profit to the exchange function. A review of the institution's records will facilitate the identification of swap transactions and, as previously stated, these amounts should not be included in the revaluation schedule.

FOREIGN EXCHANGE QUESTIONNAIRE (5 PAGES)

INTERNATIONAL PAGE 9 (continued)

REVALUATION AND INCOME/LOSS ANALYSIS (continued)

Adjust the spot-rate profit (loss) for discounts or premiums on forward exchange contracts which are included in the net currency position. A discount is a rate of exchange lower than the spot rate expressed in terms of percentage per annum or points on which a dealer buys or sells foreign exchange for forward delivery. For example, if a dealer quotes \$186 and \$191 (bid and asked) for spot sterling, and the discounts for six-month forward exchange contracts are .0300 and .0275, the forward quotes would be modified to \$183 and \$1.8825. In most cases, the discount reflects an interest rate differential in the U.S. vis-a-vis the U.K. although in periods of downward market pressure on a currency a discount may indicate market anticipation of a lower price for the currency. A premium is a rate of exchange higher than the spot rate. Again, interest rate phenomena and possibly upward market pressure will play a role in this situation. The premium situation works exactly opposite discount example. That is, premium quotes are added to the applicable spot rates quoted.

The calculation of future profit (loss) adjustments will require the listing of all contracts by maturity or value dates from near-term to longer-term. Certain contracts are made on an "option" basis because of uncertainty as to the date when foreign currency will be received or needed. In option contracts involving the purchase of exchange, list contracts with premiums at the earliest date and contracts with discounts as of the latest date. Conversely, show contracts involving the sale of exchange at premiums at the latest date and those at a discount at the earliest date. The format of the maturity distribution will depend on the system used by the institution in providing future rates. A summary of contracts on a monthly basis can be prepared provided the rates supplied by the institution are based on a monthly scale. If rates are on a semi-monthly basis, prepare the summary figures by the first and second halves of the month. To calculate the profit and loss on futures, the following rules apply:

1. A long position at a discount reflects a loss
2. A short position at a discount reflects a profit
3. A long position at a premium reflects a profit
4. A short position at a premium reflects a loss

In the absence of a significant profit or loss from the revaluation of the foreign currencies, it is not necessary to adjust book capital.

QUESTION #3 - SIGNIFICANCE OF PROFIT OR LOSS

In weighing the significance of profit or loss from foreign exchange operations, it is important to consider the amount in relation to the capital account of the institution, the volume of exchange activity, and the institution's history in sustaining profits and/or losses. The criteria enumerated as guidance in responding to questions 1a & b would also warrant consideration.

POLICY AND PROCEDURES (3 PAGES) - INTERNATIONAL PAGE 9

These three pages are an extension of the Foreign Exchange Questionnaire; consequently, the pages begin with Question #4. These nine questions discuss the institution's policies, reporting mechanisms, and procedures in relation to foreign exchange activities. Any concerns with these policies and procedures may be brought forward to the Administration, Supervision, and Control page under Item #12 and/or the Management/Administration page. Material concerns should be brought forward to the Examination Conclusions and Comments page.

AUDIT AND INTERNAL CONTROLS (2 PAGES) - INTERNATIONAL PAGE 9

The questions on these pages are designed to focus attention on the safeguards implemented by the institution through the audit function and internal controls. The questionnaire is designed for use in an institution with a relatively sophisticated trading operation. Therefore, the examiner must weigh carefully the recommendation of certain control or audit features which are cost ineffective. Nevertheless, the institution should implement protective devices such as separation of duties, test checking of transactions, and firmly established operating procedures to prevent irregularities or departure from accepted norms. In essence, the traditional rules of practice used in preventing undue exposure in domestic departments apply equally to the foreign exchange function. Any concerns with the institution's international audit and internal control procedures may be brought forward to the Administration, Supervision, and Control page (Item #5) and/or the Management/Administration page. Bring material concerns forward to the Examination Conclusions and Comments page.

REPORT OF EXAMINATION PAGES TO BE USED FOR COUNTRY RISK

Three report schedules are used to reflect examiner analysis of the country risk element in an institution's international loan portfolio. Complete these report pages as a Report of Examination section, and include them after the schedules of domestic Items Subject to Adverse Classification and domestic Items Listed for Special Mention. The three report schedules include the following:

- 1) Transfer Risks Subject to Classification or Comment
- 2) Analysis of the Country Exposure Management System
- 3) Selected Concentrations of Country Exposure

Instructions for completing these three schedules are on the following pages.

TRANSFER RISKS SUBJECT TO CLASSIFICATION OR COMMENT

INTERNATIONAL PAGE 3

This page lists assets subject to either adverse classification (Substandard, Value Impaired, or Loss) or comment as a result of transfer risk considerations. Credits will be adversely classified where an interruption in payment has occurred or an interruption in payment is imminent. The decision to adversely classify or to designate as Other Transfer Risk Problem, Weak, or Moderately Strong is made by the Interagency Country Exposure Review Committee. The Committee also prepares the write-up supporting the adverse classification or comment.

The page should contain the details of the composition of the institution's claims subject to transfer risk. The amount extended for adverse classification or comment should be as of the asset review date, if possible, particularly if there has been a change in outstanding exposure balance since the date of the last quarterly Country Exposure Report.

Adverse classifications will be either Substandard, Value Impaired, or Loss, while other designations will be either Other Transfer Risk Problem (OTRP), Weak, or Moderately Strong. Do not schedule exposures designated as strong. Provide a paragraph detailing the composition of the institution's claims subject to transfer risk.

Report exposures alphabetically by country, with a total for each category, either Substandard, Value Impaired, or Loss, OTRP, or exposures subject to special comment appearing on the last page.

Summarize the amount adversely classified due to transfer risk by asset category (for example, securities or loans) and add to the amount adversely classified due to commercial risk, with adjustments made to eliminate any duplication with respect to assets adversely classified for commercial credit weaknesses.

It is entirely possible that a segment of the institution's exposure in a particular country will also be adversely classified because of commercial credit deficiencies. In these circumstances, prepare the customary write-up on the Items Subject to Adverse Classification page. Be careful not to duplicate the adverse classification on the Transfer Risks Subject to Classification or Comment page. Elimination of duplications need not be made at each criticism cited. Rather, a single elimination may be made at the end of the listing of adverse classifications for commercial risk or transfer risk, as explained below. However, the most severe criticism must always prevail.

For example, if an asset in Country A is classified Doubtful for commercial credit risk while the transfer risk is Substandard, make the adjustment for the duplication before calculating a total for adverse classifications due to transfer risk. The same procedure applies if both transfer risk and commercial risk bear the same degree of classification. Refer to the following example:

TRANSFER RISK	SUB-STANDARD	VALUE IMPAIRED	LOSS
Subtotal assets classified due to transfer risk	5,000,000	-0-	-0-
Less-amount classified due to commercial credit risk	500,000		
Total adversely classified assets due to transfer risk	4,500,000		

On the other hand, if the transfer risk is more severe, eliminate the duplication at the location where totals for assets adversely classified due to commercial risk are calculated by using the subscript "Less-amount classified due to transfer risk."

TRANSFER RISKS SUBJECT TO CLASSIFICATION OR COMMENT

INTERNATIONAL PAGE 3 (continued)

ALLOCATED TRANSFER RISK RESERVE

Pursuant to the International Lending Supervision Act (ILSA), the Federal banking agencies require institutions to establish and maintain a special reserve when the value of international loans has been impaired by a protracted inability of the borrowers in a country to make payments on external indebtedness or no definite prospects exist for orderly restoration of debt service (for example, loans classified Value Impaired). Determination of the level of the special reserve, Allocated Transfer Risk Reserve (ATRR), is the responsibility of the Interagency Country Exposure Review Committee (ICERC). The ATRR must be established by a charge to current income and be segregated from the institution's general allowance for possible loan losses. Do not include the ATRR as a part of bank capital. The institution has the option to charge off the required amount rather than set up the ATRR. Examiners should ascertain whether the appropriate percentage ATRR or chargeoff of outstandings to Value Impaired exposures have been made. The amount of chargeoff or ATRR required is that amount which is equal to the appropriate percentage level on outstandings as illustrated:

	EXPOSURE TO COUNTRY X	EXPOSURE TO COUNTRY Y
Outstanding Balance	1,000,000	2,000,000
ATRR (ICERC sets requirement for Country X at 15%)	150,000 (ATRR or Chargeoff)	
ATRR (ICERC sets requirement for Country Y at 10% and increases ATRR requirement for Country X to 20%)	50,000 (ATRR or Chargeoff)	200,000

TRANSFER RISKS SUBJECT TO CLASSIFICATION OR COMMENT

INTERNATIONAL PAGE 3 (continued)

If a chargeoff or reserve of the requisite amount has not been established, the amount should be deducted in capital analysis and remind the institution in the Examination Conclusions and Comments page and the Violations of Laws and Regulations page of the regulatory requirement (refer to Part 351 of the FDIC Rules and Regulations) to chargeoff the amount or create the special reserve.

The requisite ATRR or chargeoff is based on the original amount of exposure to a country less payments received. Loans extended after the initial amount, as determined for ATRR purposes, are generally not subject to an ATRR or charge-off if the new money was extended pursuant to economic reforms and if the credits are performing.

Include exposures adversely classified due to transfer risk (less duplication adjustment) in the Summary of Items Subject to Adverse Classification and Special Mention page as a separate line item, "Transfer Risk." Exposures designated Other Transfer Risk Problems should also be combined with assets listed for Special Mention in the Summary of Items Subject to Adverse Classification and Special Mention page on the separate line item, "Transfer Risk." Extend transfer risk exposure amounts classified as Value Impaired under the Substandard and Loss columns on the above page according to the appropriate percentage ATRR or chargeoff of outstandings. Footnote these amounts and the amounts representing "Value Impaired" included in the Comments section. Make this adjustment following the adjustments for duplication and prior to carrying the totals forward to the Summary of Items Subject to Adverse Classification and Special Mention. Appropriate comments can be included regarding the institution's handling of special reserves and chargeoffs of Value Impaired international loans. Adjust Value Impaired classifications to the Substandard and Loss classifications so that the amount of the required ATRR not taken by the institution will be deducted from capital and reflected as such on the Capital Calculations page.

Combine credits which have been adversely classified due to transfer risk problems with commercial loan classifications when evaluating an institution's asset quality and other measures of financial soundness, including capital adequacy. Also report exposures designated as Weak or Moderately Strong Transfer Risks on the Transfer Risks Subject to Classification or Comment page, with the accompanying write-ups. The criteria for determining exposures warranting comments are as follows:

Strong Transfer Risks - Do not comment on exposures to countries in this grouping. Extremely large exposures to these countries may be commented on in the discussion of the exposure management system and/or the Examination Conclusions and Comments page.

Moderately Strong Transfer Risks - Comment on exposures exceeding 15 percent of capital. For exposures between 10 and 15 percent of capital, there is a presumption in favor of commenting if outstandings with a maturity in excess of one year exceed 7.5 percent of capital. If maturities in excess of one year are less than that amount, there will be a presumption against commenting. Do not comment on exposures below 10 percent of capital.

Weak Transfer Risks - Comment on exposures exceeding 10 percent of capital. For exposures between 5 and 10 percent of capital, there is a presumption in favor of commenting if amounts due in excess of one year exceed 5 percent of capital. If amounts maturing in excess of one year are less than 5 percent, the presumption is against commenting. Do not comment on exposures below 5 percent.

TRANSFER RISKS SUBJECT TO CLASSIFICATION OR COMMENT

INTERNATIONAL PAGE 3 (continued)

Where comment is optional, the examiner will be allowed some flexibility and may determine not to follow the presumptions if other pertinent banking factors weigh more heavily either for or against comment. These factors might include management ability, the nature of the Committee's comment about the country, or the results of a more detailed breakdown of the composition of the portfolio. For example, if the institution's claims on a country were primarily short-term with presumption against commenting, the examiner might comment on the exposure if management was not following developments in the country and the Committee's write-up indicated a deteriorating situation. Similarly, comment might be omitted in spite of a presumption in favor of commenting if the Committee's report indicated a country's near-term outlook was good and a substantial part of the term credit was maturing in the second year.

To determine whether threshold levels of capital funds have been met, include firm commitments to lend additional funds.

It is possible that certain portions of an institution's exposure in a country (for example, trade transactions) will be listed for special comment, while other portions of the institution's exposure in a country (for example, term loans) might warrant adverse classification or designation as OTRP. Report split designations under the proper columns. To insure the uniform treatment of all short-term loans, the Committee has defined "short-term loans" as loans or loan amortizations maturing within one year from the applicable examination. That portion of long-term loans representing principal amortizations due within one year will not be included when extending long-term loans only. "Trade transactions" include only those credits covering the actual movement of goods (for example, commercial letters of credit and acceptances). Acceptances past due or extended are considered to be "loans." Extend for special comment or adverse classification, as applicable, contingent liabilities subject to transfer risk (including commercial and standby letters of credit as well as loan commitments) that will result in a concomitant increase in institution assets if the contingencies convert into an actual liability. Classify contingent liabilities extended for adverse classification according to the type and tenor of the institution asset which would result from conversion of the contingency into an actual liability. For example, classify commercial import/export letters of credit the same as trade transactions, and classify commitments to fund long-term project loans the same as long-term loans. In cases where type or tenor is not easily discernible and where exposure is accorded a split classification, the more severe classification should prevail.

Commitments should include only those commitments for which there has been charged a commitment fee or other consideration, or is otherwise a legally binding commitment. In the case of commitments for syndicated loans, extend only the institution's proportional share of the commitment. Similarly, contractual underwriting commitments (for example, revolving underwriting facilities) and other bond underwriting agreements may be shown net of firm commitments from other parties to purchase the assets without recourse within a short period of time. Accordingly, commitments should include the institution's obligations to participate in syndicated loans and underwritings managed by other institutions.

With respect to traditional concentrations of credit to related or affiliated borrowers within the institution's exposure in a particular country, schedule these lines on the Concentrations page in the usual manner.

ANALYSIS OF THE COUNTRY EXPOSURE MANAGEMENT SYSTEM

INTERNATIONAL PAGE 3

Present, in narrative form, an analysis of the institution's system for monitoring and controlling country exposure. Guidelines for conducting such analysis, as well as detailed examination procedures, are incorporated in the International Banking Section of the Manual. Include the examiner's evaluation of the institution's procedures for measuring exposure, the institution's system for establishing country lending limits, and the institution's capability to analyze countries. Also include an assessment of adherence to the institution's stated policies in this area.

The evaluation of the institution's international loan portfolio and the institution's country exposure management may warrant including commentary on the Examination Conclusions and Comments page to bring deficiencies to the attention of management and/or the board of directors. Examples might include very excessive concentrations of transfer risk in one or more countries, a pattern of concentrations to certain classes of countries, large amounts of classified assets, or a weak or ineffectual country exposure management system.

SELECTED CONCENTRATIONS OF COUNTRY EXPOSURES

INTERNATIONAL PAGE 3

Use this schedule to display transfer risk exposures considered large relative to the institution's capital and/or considered significant in relation to the economic, social, and political circumstances within a country. Countries are reviewed by the Interagency Country Exposure Review Committee (ICERC). The Committee, aided by a series of ratios which measure elements related to a country's debt service capability, can place the countries in one of three categories. The ratios are as follows:

1. Current account/export ratio - Current account balance as a percentage of goods and service exports
2. Cumulative account/export ratio - Cumulative current account balance for three years as a percentage of average annual goods and service exports in the same three years
3. Interest/export ratio - Net interest payments in the current year as percentage of average annual goods and service exports for the latest three years
4. Interest/reserve ratio - Net interest payments as a percentage of international reserves
5. Debt service ratio - Service payments on external public debt as a percentage of exports of goods and services

Although the ratios provide an initial basis for categorizing countries, the committee makes the final determination with respect to the placement of a country in a category. The Committee has the option of placing a country in a category other than that indicated by the five screening ratios based on its analysis of country studies furnished by the Federal Reserve System and other sources of information. Adjustments by the Committee are based on evidence which indicates that a country's ability to service its debt and maintain its credit standing is not accurately reflected by the ratios.

List exposures to countries judged to be strong transfer risks on this schedule if the institution's exposure exceeds 25 percent of the institution's Tier 1 Capital. List moderately strong transfer risks at 10 percent of Tier 1 Capital, and list exposures to weak transfer risks equal to or exceeding 5 percent of Tier 1 Capital on this schedule. Also list all exposures to adversely classified countries or countries designated OTRP. Display exposures in alphabetical order.

The schedule is patterned after the Country Exposure Report (FFIEC 009). If the institution is required to prepare the report, obtain the information from the report most recently filed by the reporting institution. Compiling the required data as of the examination start date is unnecessary unless the institution's exposure has changed materially since the date of the report. Spot-check the accuracy of the report by sampling the data provided on several countries shown on the report.

Several insured state nonmember banks have significant country exposures but are not required to submit the report because the institution does not meet the foreign branch, foreign subsidiary, or Edge Act or Agreement subsidiary criteria. Institutions with overseas lending activity in excess of \$15 million are required to file periodic reports with the U.S. Treasury under the "Treasury International Capital Reporting System." These reports may be useful in determining the volume of the institution's foreign lending activity. If the institution has aggregate exposures to foreign residents exceeding \$30 million, prepare the report schedule "Selected Concentrations of Country Exposure." For institutions with exposures to foreign residents of \$30 million or less, the schedule may be prepared if it is significant to evaluating the condition of the institution. In any event, exposures to countries adversely classified by the Committee should be classified in the Report.

SELECTED CONCENTRATIONS OF COUNTRY EXPOSURES

INTERNATIONAL PAGE 3 (continued)

Terminology used in the schedule include the following:

Cross-Border/Cross-Currency Claims - Includes all assets of the institution and its foreign offices where the obligor or asset is domiciled outside the U.S., and the asset is denominated in a currency different from the currency of the country where the obligor or asset is located. Claims include interest-bearing balances with institutions, securities, Federal funds sold and securities purchased under agreement to resell, loans (including own acceptances purchased, acceptances of other institutions purchased, discounted trade bills, and other instruments defined as loans in the instructions to the Report of Condition), direct lease financing, investments in unconsolidated subsidiaries and associated companies, and customers' liability on acceptances outstanding.

Amounts Maturing In: Less Than 1 Year - More Than 1 Year - Base the maturity distribution on amortization or final maturity dates, as appropriate, and not interest adjustment dates or roll-over dates. Include loans payable on demand in the less-than-one-year column. Place current maturities of long-term debt in the less-than-one-year column.

Commitments/Contingent Claims - Refers to binding contractual obligations of the institution and includes only the following: fee-paid loan commitments (less any amounts actually disbursed), undisbursed portions of loans contracted where the funds are available at the borrower's request, commercial letters of credit either issued or confirmed, standby letters of credit, and formal and legal guarantees issued. Excluded from this item are commitments that are subject to further institution approval before disbursement of funds and credit authorizations (internal guidance lines).

Subtotal by Location of Borrower - This column is intended to arrive at a gross total of cross-border claims and commitment/contingent items by country in which the primary obligor resides. The subtotal is calculated by adding the maturity and commitment/contingent claims columns.

Adjustments for Guarantees - These columns are intended to reallocate cross-border and contingent claims to the country of any guarantor (the party ultimately responsible for payment of the obligation in the event of default by the primary obligor). For the purposes of this report schedule, "guaranteed" claims are those claims of the reporting institution for which a third party formally and legally obligates itself to repay the reporting institution's claims on the primary obligor if the latter fails to do so. Documents that do not establish firm legal obligation, such as comfort letters or letters of awareness or intent, are not considered guarantees. The term "guaranteed" covers collateralized claims if the collateral is (a) tangible, liquid, or readily-marketable (for example, cash, gold, certificates of deposit, or readily-marketable shares of stocks or bonds); and (b) both held and realizable outside of the country of residence of the borrower. In cases involving collateral, the residence of the "guaranteeing" party is the country in which the collateral is held unless the collateral is a security, in which case it is the country of residence of the party issuing the security. With respect to claims on institutions, reallocate obligations due from a branch or agent of an institution to the country where the institution's head office is located. This procedure takes account of the implicit obligation of the head office to honor claims on its branches. This procedure will be used to reallocate any claims on U.S. branches and agencies of foreign banks. Reallocate any other claims to institutions, including institutions chartered in a foreign country, institutions that are subsidiaries of institutions, U.S. commercial institutions that are majority-owned by foreigners, or New York investment companies, only if these claims are formally guaranteed by a third party in another country.

SELECTED CONCENTRATIONS OF COUNTRY EXPOSURES

INTERNATIONAL PAGE 3 (continued)

Net Local Currency Assets of Offices in the Country - This column is used to indicate the excess of local currency assets over local currency liabilities of bank offices operating in a foreign country. For example, if the institution operates an office in France, show the net amount of French franc assets (loans to French residents denominated in French francs) held in the offices over French franc liabilities (French franc deposits of French residents) of the office in this column. If local currency liabilities exceed local currency assets, place a zero in this column.

Exposure by "Country of Risk" - This column is derived by adding the subtotal by location of borrower, adjustments for guarantees, and net local currency assets of offices in the country. The total identifies the true exposure of the institution in the country.

Exposure by "Country of Risk" as a Percent of Capital - This percentage is derived by dividing the exposure by "country of risk" by the institution's Tier 1 Capital.

Since this page is largely patterned after the Country Exposure Report, reviewing this reporting document and its instructions is recommended. The following cross-reference table is provided to assist in relating the report schedule to the Country Exposure Report:

CAPTION ON REPORT PAGE	COLUMN NUMBER ON COUNTRY EXPOSURE REPORT
Less than one year	5
More than one year	6, 7, and 8
Commitments/contingent claims	20, 21, and 22
(Add) Other credits guaranteed by residents of this country	14, 15, 16, and 24
(Less) Credit externally guaranteed	10, 11, 12, and 23
Net local currency assets of offices in the country	17 less 18 (if value is negative, place a zero beneath the caption)

SELECTED CONCENTRATIONS OF COUNTRY EXPOSURES

INTERNATIONAL PAGE 3 (continued)

Although the schedule is primarily intended to display large exposures, include exposures to countries subject to adverse classification or Other Transfer Risk Problems on the page regardless of the percentage of Tier 1 Capital. Reflect the total of the selected concentrations for country exposure for those countries designated strong, moderately strong, and weak on the Summary Analysis of Examination Reports on line 55, Concentrations. A comment on the Examination Conclusions and Comments page may be warranted if such exposures are excessive.